COMMISSION OF THE EUROPEAN COMMUNITIES

COM(76) 408 final.
Brussels, 26 July 1976

COMMUNICATION FROM THE COMMISSION TO THE COUNCIL

Request for an opinion under Article 54, second paragraph, of the ECSC Treaty regarding the proposed part financing of a programme of Hawley Charbon France, the French coal and steel joint venture comprising the acquisition of 80% of the capital of the Hawley Coal Mining Corporation (H.C.M.C.) in the United States.

Communication to the Council

Subject: Request for an opinion under Article 54, second paragraph, of the ECSC Treaty regarding the proposed part financing of a programme of Hawley Charbon France, the French coal and steel joint venture comprising the acquisition of 80 % of the capital of the Hawley Coal Mining Corporation (H.C.M.C.) in the United States.

Loan requested: A total of US $ 12.0 million (approx. 10.9 million eua)

Borrower: USINOR (51.2 % of the total)
SOLMER (29.3 % of the total)
Soc. Mét. de Normandie (3.9 % of the total)
Charbonnages de France (15.6 % of the total).

I. THE STRUCTURE OF HAWLEY CHARBON FRANCE

The energy situation resulting from the events of October 1973 led Association Technique de l'Importation Charbonnière (ATIC - Technical Association for Coal Imports), Paris, to intensify its efforts to provide the French coking coal market with greater security supply. In particular, ATIC was in contact with an American Company, the Hawley Coal Mining Corporation, the holder of exclusive mining rights for mines in West Virginia. This company, which was already linked to USINOR through ATIC by a long-term contract concluded in 1971 for the supply of coking coal, was intending to increase its deliveries.

Under those circumstances the main French iron and steel companies which import coking coal from non-member countries, USINOR, SOLMER and Société Métallurgique de Normandie, together with Charbonnages de France, which also wished to obtain such supplies, felt it necessary to set up, at the end of 1974 and early in 1975, a joint venture named "Hawley Charbon France" with a view to acquiring an 80 % interest in Hawley Coal Mining Corporation in the United States. The remainder of the shares, i.e. 20 % of the capital, were to remain in the hands of Hawley Fuel Corporation, a subsidiary of Belgo Petroleum. This operation was carried out by means of a payment of US $ 36 million, broken down as follows:

USINOR	51.2 %
SOLMER	29.3 %
NORMANDIE	3.9 %
CHARBONNAGES DE FRANCE	15.6 %

The bulk of the coking coal supplies are intended for the Dunkirk and Fos plants and for certain coking plants belonging to collieries in the north of the country.

II. THE MINES OF THE H.C.M.C.

The workable coal reserves of the H.C.M.C. are estimated to be as follows:

the Blue Boy mine	22.7 m tons
the Empire mine	18.5 m tons
the Beards Fork mine	20.7 m tons
other mines	16.3 m tons
	78.2 m tons

The above reserves consist of coking coals with a low content of combustible substances.

The Blue Boy mine is devoted entirely to underground mining whereas the Empire mine, although essentially similar, includes an opencast section.

In view of the great similarity in the mining conditions encountered the company's policy on underground mining is to standardize workings with regard both to the equipment used and to the training and interchangeability of personnel.

During 1975 production rose to about 725,000 t.

III. SUPPLIES TO PARTICIPATING COMPANIES

A coal sales agreement was concluded in 1974 between Hawley Coal and ATIC (acting on behalf of the participants in Hawley Charbon France) and Hawley Fuel, the American minority shareholder. Under the contract Hawley Coal undertook to sell ATIC 80 % of its own production and that of its subcontractors, an amount corresponding to the share of the capital held by the French companies.

Furthermore, Hawley Coal has also sold to Hawley Charbon France, under a contract concluded prior to the equity acquisition, the proportion of the production which would normally have gone to the American shareholder. For their part the participants in Hawley Charbon France have undertaken to buy up or to arrange for the sale of the coal produced by Hawley Coal.

Coal prices are normally fixed annually on the basis of average prices regarded as representative for the market and applied by the major American coal exporters.

During 1975 deliveries of coking coal supplies from Hawley Coal rose to about 600,000 t, a very substantial proportion of its production.

Supplies in the coming years will depend on Hawley Coal's production. It seems likely that, as in 1975, the French partners will not only absorb their share of Hawley Coal's production, but will also buy up the share of the production to which the American shareholder would normally be entitled. The production share to be taken up by the French undertakings in fact represents only a limited part of their requirements of imported coking coal. In 1976 imports are expected to be as follows:

- Blue Boy	600,000 t
- Empire	300,000 t
	900,000 t

In subsequent years supplies should increase in line with the expected growth in production.

The production cost of coking coal must undoubtedly have been higher than was initially forecast. A number of social factors, in particular the increase in personnel for safety reasons demanded by the miners' unions, have increased the wage costs of Hawley Coal as in other undertakings in the sector. However, the cost has remained lower than the representative selling prices on the American market and, by an even larger margin, than the production cost of Community coal of comparable quality. Furthermore, the coal in question is highly suited to coking and improves the quality of the coal with which it is mixed.

The selling prices for American coal are expected to be revised in 1976. This would improve Hawleys Coal's competitiveness.

IV. PLANNED INVESTMENTS

The various investment programmes provide for an increase in production capacity at the two main collieries of Blue Boy and Empire and to a lesser extent at Beards Fork. In 1975 expenditure amounted to about US $ 6 million. The programme approved for 1976 involves a sum of about US $ 12.5 million.

The investment is designed:

- to increase production potential from 700,000 t/year in 1975 to 1.3 million t/year in 1976;
- to modernize and standardize mining techniques at the Blue Boy and Empire mines.

The purpose of these investments is to provide similarly manned teams with the equipment necessary to carry out complete coal-getting and clearing operations.

3

Assessment

The participation in Hawley Coal by the aforementioned steel and coal mining companies appears to be in conformity with Community interests, for the following reasons:

- Quantitatively, the purpose of the acquisition is to improve the security of supplies to the companies concerned;
- Regarding prices, it is now possible for them to obtain their coal at prices very close to production cost. It strengthens their competitive ability in the American coal market by making them more familiar with the structure of production and transport costs;
- The French companies' participation in the capital of Hawley Coal was acquired exclusively with the objective of improving their supplies of coking coal. In fact, under the provisions of a long-term contract drawn up in 1974 between Hawley Coal, on the one hand, and ATIC, which was acting as authorized representative of the French shareholders, on the other, Hawley Coal agreed to sell or make arrangements to sell 80 % of its production to ATIC, a figure which corresponds to the French companies' share of its capital.

The above considerations would suggest that a favourable view should be taken of the loan application given that the programme involved will contribute directly and primarily to the achievement of the objectives outlined by Article 54 paragraph 2 of the ECSC Treaty.

The Commission has taken a favourable decision in principle to extend the loan requested. In consequence, in conformity with Article 54, paragraph 2 of the ECSC Treaty, the Commission requests the assent of the Council with a view to the granting of a total loan of US $ 12 million, to be made to the following companies:

Usinor	US $	6,120.000	(51 %)
Solmer	US $	3,480,000	(29 %)
Charbonnages de France	US $	1,920,000	(16 %)
Société Métallurgique de Normandie	US $	480,000	(4 %)